

BUSINESS CONDITIONS & FORECASTS

A M A News Letter

AMERICAN MANAGEMENT ASSOCIATION, 330 WEST 42nd ST., NEW YORK, N. Y.

OCTOBER 29, 1941

The President's Scratch-Pad

It will be recalled that ever since the defense program started the hope has been repeatedly expressed that eventually our labor troubles would diminish and defense production could proceed untrammelled by strikes and work stoppages. Everyone seemed to feel that a solution would be found to our labor difficulties and that surely, in the face of the nation's peril, government, labor and management would put forward their best effort to prevent strike interruptions.

Never a Dull Moment

After 18 months of defense effort, what is the net of the labor picture? Briefly, never in our history has the labor scene been more confused, never have labor developments been more out of step with the times, never have attitudes been so intransigent. Can anyone remember a day since the President inaugurated the defense program that there have not been fresh reports of strikes in every part of the country? Find a defense industry whose production has not been either directly or indirectly retarded by labor stoppages! It is clear to all—from school boys to octogenarians—that there is something wrong at the very core of our industrial relations system. It will take courage to correct this condition, but the correction must be made.

A Putter and the Fate of Democracy

One of the most frequently heard stories about the personal life of Frederick W. Taylor, the father of scientific management, concerns his golf clubs, and, in particular, his putter. Linked to today's problems, the story curiously symbolizes a great deal for us in management.

Taylor, after considerable experience with the ordinary implement used on the putting green, wondered if a more efficient club for this purpose could not be devised. He experimented. Eventually he developed a two-handled, Y-shaped affair, the shaft of which entered the club head at dead center. The player used the club by grasping the handles, swinging the club between his legs directly facing the hole and the ball. Obviously it was a much more efficient club than the sin-

gle-shafted orthodox club. Anyone's aim with it was deadly—so deadly in fact that the Golfing Association had to rule the club illegal.

The important point is, however, that Taylor would not accept the ordinary means of propelling the ball into the hole. He wanted to find a better way. The story illustrates one of his most essential characteristics—and one that all management needs now.

More and more must we ask that sometimes awkward and unpleasant (but often so fruitful) question: "Isn't there a better way?" The fate of democracy may be wrapped in that question, for only by finding a better way to outproduce the Axis can the democracies win this war.

Management No Machine

Management authorities — men who have spent their lives helping companies work out new operating plans and establishing new systems—will readily tell you that merely to set up these systems in a company gives no assurance that the company will be able for all time thereafter to operate on an efficient plane. Good management is not a static thing. It depends entirely upon the creativeness of individuals. It is, after all, a way of life and a state of mind. It is not a machine which once set in motion need only be oiled and greased.

Don't Keep Good Ideas to Yourself

Here's something that goes for individuals, departments and whole companies—don't try to keep all your good management ideas to yourself, and don't think you have a monopoly on all good management ideas. This has been emphasized repeatedly at recent AMA meetings. Speakers have revealed that they found individuals in their own companies who had developed new operating ideas and confined these ideas to their own departments. In a number of cases the new systems that were devised were applicable to the whole company.

In times like these, when the brains of all good managers are pondering Taylor's question: "Isn't there a better way?",

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BUSINESS OUTLOOK

Indexes Present Spotty Pattern, but Dislocations May Be Alleviated

Industry is still in the throes of transition to an "all-out" defense basis, and as a result the business reports summarized in this LETTER present an increasingly spotty pattern. Priority curbs in civilian lines continue to offset feverish activity in defense production, and thus the general business index remains on a plateau. However, indications of future improvement are growing, and it is predicted that the changeover to a war economy will be virtually completed next spring.

An ominous development of the past month was a sharp increase in jurisdictional strikes. Also on the debit side of the month's ledger was the SPAB ban on non-essential civilian construction, foreshadowing a 25 per cent decline in building activity in 1942. Thus, while the residential building boom wanes, defense building will be expedited.

The quickening pace of the defense program reflects intensified awareness of the tremendous task we have undertaken to overtake the Nazi productive machine. Since 1939 we have expanded output of military airplanes from 200 to over 1,800 monthly; ordnance production is four to five times greater than a year ago; launchings under our naval shipbuilding program average nearly one a day—and yet our production to date has not replaced the losses of the Allies in the fall of France alone. Consequently all output quotas have been boosted in the determination to attain our objective by sheer force of productive efficiency. Next year over 50 per cent of our total production will be devoted to defense (and, incidentally, we shall be supplying Britain with one-fourth of its entire food requirements). An annual expenditure of \$50,000,000,000 for armament is being freely predicted by officials who would have balked at \$10,000,000,000 a year ago.

Such statistics as these, coupled with reports of "ghost towns" left in the wake of priorities unemployment, have struck terror in many civilian-goods manufacturers who fear their enterprises will be

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BUSINESS CONDITIONS & FORECASTS

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| | Alexander Hamilton Institute | Brookmire, Inc. | Business Week |
|-------------------------------------|---|--|---|
| General Outlook | Part of the abnormal output of past months has apparently been due to stocking up on consumers' goods as protection against price rises and threatened shortages; this indicates a recession in consumers' goods output. Thus total output of goods may show little further rise during the rest of the year (October 18). | Business reports continue to show feverish activity in many lines—though labor troubles, defense curbs, and priority crackdowns are creating increasingly spotty conditions. Early third-quarter earnings reports reveal moderate to sizable gains over a year ago (October 18). | For several months the volume of business activity has held on a plateau; no important upturn appears in the immediate offing. For the time being, business has lost its defense-inspired resurgence. Further expansion in defense production, instead of stimulating consumer-goods output, will in some cases reduce it (October 18). |
| Money and Credit | Indications are that national income for September will show a further increase over August, and another expansion in October seems in prospect. Present outlook is that national income for the full year will be close to \$100,000,000, despite some downturn toward the year's end (October 11). | Demand for funds for business purposes is rising at an increasing rate. Borrowers will be increasingly willing to pay higher rates; thus a condition is created which eventually becomes an influence in raising money rates, which in turn causes a decline in bond prices (October 11). | Commercial loans of banks have swelled so rapidly that some tightening in short-term money rates would not be unexpected. Once short-term rates had stiffened, followers of the market would expect a gradual rise in yields on longer-term investments (October 18). |
| Security Markets | By contrast to the stock market, bond prices have improved to an extent where the returns on bond investments are at approximately the low points for the year. The action of bond prices in the face of the reaction in stocks indicates that the recent decline in the equity section is minor (October 16). | By no means can it be said that the stock market is so high as to portend a long slump. Stock prices are well below the highs of recent years. Nor should any sudden war developments impinge on the market with the surprise element that struck when France fell (October 18). | The first few corporation earnings statements for the third quarter and the nine months made satisfactory reading for any stockholder. But despite good reports, the Standard & Poor Corp. price average of industrial stocks stood this week at 97.1, compared with 102.6 a year ago (October 18). |
| Production | After a slight setback in July, manufacturing activity resumed its expansion in August and reached the highest rate on record, 114.1% higher than at the depression's low in 1932. Production in the first eight months of 1941 was 32.0% higher than in the same period last year (October 18). | The Federal Reserve Board manufacturing index for August stood at 167, as compared with 164 a month ago and 125 a year ago (1935-9=100). Machine-tool shipments totaled \$64,300,000, registering a gain of 11.1% over a month ago and 57.6% over a year ago (October 4). | This week steel attained the highest tonnage on record, and expansion in such key defense lines as ships, airplanes, tanks and guns reached new high levels, counterbalancing modest declines in heavy consumer goods, such as automobiles and refrigerators, etc. (October 11). |
| Distribution | Department store sales in the United States during the week ended Oct. 4 were 34% larger than a year ago, as compared with an increase of 23% in the preceding week. Sales of autos to consumers by General Motors declined to 52,829 units in September from 84,969 in August and from 97,527 in September, 1940 (October 18). | Retail purchases have been unduly stimulated by anticipatory buying in lines where excise taxes were imposed—e.g., automobiles, radios, business machines, jewelry, toilet preparations. As a consequence of stocking up by consumers or retailers, many of these lines will face a temporary lull (October 4). | The cost of living has started to advance faster than national income. Retail prices will feel the pinch. Leon Henderson's velvet glove if OPA can decide whether to extend the present commodity setup or establish a new division to deal with retail prices exclusively (October 18). |
| Construction | Building contracts in August showed an unusually sharp rise to a volume far above the previous high record. Contracts in August were double the volume in the same month last year (October 11). | While defense construction will be pushed, other kinds will be subjected to tightening restrictions. Reports are already appearing that several states are postponing the erection of public buildings. The rise in building costs is sharp, and in the labor element it is "skyrocketing" (October 4). | Construction employment is currently at 3,100,000-man peak (average for year, 2,700,000). No large-scale job involving the use of metal can safely be undertaken without a priority, and next year the average is expected to drop to 2,100,000 (October 18). |
| Agriculture | The Department of Agriculture in its October report raises its estimate of the 1941 cotton crop to 11,061,000 bales from 10,710,000 bales forecast a month ago, but the crop will still be smaller than last year's yield of 12,566,000 bales (October 18). | The Department of Agriculture's seasonally adjusted index of farm income for August was 140.9 (1935-9 = 100), 3.6% above the previous month and 43.6% higher than in August, 1940. The gain was substantially larger than that recorded by non-farm income (October 4). | In the latest week for which figures are available, the price average of domestic farm products stood at 157.5, which compares with 165.6 a month ago and 117.9 a year ago (Aug., 1935 = 100). With a wheat harvest estimated at 960,000,000 bu., growers are still hopeful of getting 110% of parity for their crop (Oct. 18). |
| Commodity Prices | The BLS price index of 28 basic commodities staged its fourth consecutive decline during the week ending Oct. 10, dropping to 153.8 from 155.3 in the preceding week and from the war period peak of 156.9 in the week ended Sept. 19 (Aug., 1939 = 100). However, it is still 38.7% higher than a year ago (October 18). | The unsettlement of market sentiment resulting from Soviet reverses is tending to depress commodity prices. This reaction would prove temporary under prolongation of the war, however, as inflationary ingredients remain visible on every hand—though eventual government curbs will help determine trends (October 18). | Defense officials are willing to pay better prices to insure higher domestic production of scarce materials. Leon Henderson's action in raising zinc 1¢ a pound is the first boost in any of the leading commercial metals allowed in many months, but it probably will not be the last (October 18). |
| Labor and Wages | Continuing downward for the seventh consecutive month, the number of persons unemployed in the United States dropped sharply in August to 4,405,000 from 5,155,000 in July and from 9,433,000 in August last year. Unemployment in August this year was at the lowest level since December, 1929 (October 18). | August employment (total civil non-agricultural workers) amounted to 39,542,000—a gain of 8.8% over the previous month and 13.3% over July, 1940. Imports were off 0.6% from the previous month but still were 19.5% over July, 1940, totaling \$277,800,000 (October 4). | Eruption of new labor disputes within the last ten days jolted the strike statistics into a sharp climb. It was taken as an ominous sign that jurisdictional strikes were on the increase (October 18). |
| Foreign Trade and Conditions | Rising to the highest peak for the war period, the value of merchandise exported from the United States in August amounted to \$455,000,000, as compared with \$359,000,000 in July and with \$295,000,000 in September last year (October 18). | The value of merchandise exports of the United States in July totaled \$358,700,000, a gain of 8.8% over the previous month and 13.3% over July, 1940. Imports were off 0.6% from the previous month but still were 19.5% over July, 1940, totaling \$277,800,000 (October 4). | The trade pact with Argentina puts an end to Britain's preferential hold on the Argentine market. Look for other decisive hemisphere moves in the next few weeks. Britain's exports to the United States have been fairly well maintained (October 18). |

This digest covers the views of various authorities. It does not include any strictly confidential information or specific advices from the sources.

Dun's Review

For the time being, progress to still higher levels of business activity has been halted by dislocations resulting from the changeover to a defense economy. "Priorities unemployment" is increasing. A second wave of scare buying at retail was relatively short-lived. Commodity prices have fallen back to August's level (October).

Bank clearings (23 cities) totaled \$27,308,100,000 in September, an increase of 0.7% over the August total and of 29.5% over last September. The adjusted Insolvency Index (failures) dropped to a low of 48.4 in September, compared with 57.0 a month earlier and with 64.6 last year (November).

Stock price averages drifted lower during late September and early October in dull trading sessions. Share turnover on the New York Exchange dropped below 500,000 daily in the first two weeks of October. The industrial share average (Dow-Jones) receded to 121 in mid-October, lowest since last June (October).

Defense steadily increases its share in production, as official figures put next year's goal above 50% of total output. Industrial activity has held fairly steady in total since last June. The FRB adjusted index (1935-1939 = 100) was 161 in September, compared with 160 in the two months preceding (October).

Beat-the-tax buying boomed retail sales at the end of September but left trade for the month below the August level on a seasonally corrected basis. The FRB adjusted index of department store sales (1923-1925 = 100) dropped off to 112 from the record high of 134 in August; in September, 1940, it stood at 97 (October).

An order by SPAB placing a ban on all construction except that essential to public health and safety was officially estimated to forecast a decline of 25% in new building during 1942. Building permits, which dropped sharply from July to August, held to that level in September, fractionally above 1940 (October).

Dull trading and irregular price trends have become more common in commodity markets. The Dun & Bradstreet daily wholesale price index touched a wartime high of 147.91 on September 9 and moved downward in following weeks, to stand at 142.51 on October 15 (October).

Despite an increase in priorities unemployment, total employment has continued to grow. In New York State there was an expansion of 2.5% in the number of factory workers and of 3.8% in payrolls from August to September; for the first time this year gains were smaller than the average for the period (October).

Since April of this year our shipments of food to Britain have stepped up rapidly. By next year we expect to be sending the British people one-fourth of their food requirements. The value of food exported to Britain within the next five months is expected to average \$200,000,000 a month (October 15).

Cleveland Trust Company

Business conditions are not actually improving now, but symptoms of future betterment are beginning to appear. In point of fact, general business problems are still puzzling and complicated as more numerous and more serious materials shortages develop, and unemployment is threatened in consumer-goods industries (October 15).

A sharp increase in money in circulation, a rise in Treasury funds, and an increase in loans and investments of commercial banks have been absorbing idle bank reserves. This trend cannot fail to influence interest rates, but increases in rates are apt to be slight so long as most banks have some idle funds (October 15).

Last June this bank's index of industrial production was 117, or 17% above the computed normal level. In July production reached the highest level to date at 18% above normal. August was 17 above normal, and the preliminary figure for September is 16% above (October 15).

The recent spurt in retail sales appears to represent excessive buying. For the first seven months of this year retail sales were equal to 65% of national income, or 16% higher than the average ratio of the past 12 years. Rising prices account for one-fourth of the sales gain and increased volume for three-fourths (October 15).

Increased demand for farm products for export, added to greater domestic demands resulting from the defense program, and coupled with sharply higher prices for farm products, should bring a higher income to people in rural areas than they have had since 1920 (October 15).

Prices of farm products in general are a little over 20% higher this year than they were in 1940 (October 15).

Workers in defense industries are now enjoying the highest standard of living they have ever had. In civilian-goods industries, where materials shortages have already caused concentrated shutdowns, it seems likely that special measures will be taken to alleviate "priorities unemployment" (October 15).

While "priorities unemployment" has become a problem of general concern—estimates of probable layoffs ranging from 1,500,000 to 3,000,000 workers—indications are that this unemployment will represent only a transitory stage, reflecting inevitable frictions in the shift to all-out defense (October).

In the first quarter of 1942 more new ships are expected to be produced in this country than in any full year in the two decades up to 1941, and production planned for the first quarter of 1943 is 24% greater than that of the entire year of 1918 (October).

National City Bank

Although the pace of the defense effort is quickening, the industrial organization of the country is still in the period of transition to an all-out defense basis. While the shift is under way, some confusion and irregularity in the business reports must be expected (October).

The increase in the reserve requirements of Federal Reserve member banks (effective November 1) will result in a reduction of approximately \$1,200,000,000 in excess reserves but will still leave an excess of around \$4,000,000,000 for all member banks (October).

If all the materials available over the coming months are fabricated, the production indexes will rise to new highs irrespective of priority dislocations and ungratified wants. And estimates indicate that the volume of materials available to industry will be the largest by far that the country has ever known (October).

The belief that the defense program can be used as a vehicle for raising the standard of living is an illusion which should be self-evident, unless the production of battleships, tanks and ordnance is construed as adding to living standards; and the longer the illusion persists the more costly it will be (October).

Scarcely a day passes without announcement of new plant facilities begun or put into production, well up to schedule. The total of new plants and additions has reached 2,750, with a value of \$4,800,000,000. The bulk of the contracts placed through last spring will be completed before the end of this year (October).

Whether everything possible has been done to enlarge our supplies of strategic commodities is problematical. Thus, despite the copper shortage, there are copper mines in the United States capable of producing perhaps 75,000 tons yearly which are not operating because the fixed price of copper is unprofitable to them (October).

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Production Conference at Pittsburgh To Consider Today's Plant Problems

Sessions Are Expected to Draw Executives from Many Industries to Discuss Ideas for Stepping Up Manufacturing Output

The pooling of production ideas from industries throughout the country will be the aim of the AMA Production Conference to be held at the Hotel William Penn, in Pittsburgh, on November 18 and 19. Registrants at the sessions will seek solutions to mutual problems through entirely free interchange of ideas.

L. C. Morrow, Editor of *Factory Management and Maintenance* and Vice President of the AMA Production Division, announced plans for a two-day meeting covering such subjects as: Multiple-Shift Operating Problems, Making Subcontracting Work, Emergency Training Readjustments, Getting Flexibility into Scheduling, Materials Procurement Planning.

The Conference is expected to be one of the largest that the Association's Production Division has ever sponsored. Production executives from such industries as aircraft, steel, rubber, glass, machine tools and many others are scheduled to describe their operating problems. The outline of the program is as follows:

Tuesday Morning, November 18. Multiple-Shift Operating Problems: Night-Shift Control; Supervision; Cooperation Between Shifts; Compensation. **Making Subcontracting Work:** Gantt Charts; Costs; Shifting from Job to Mass Production.

Tuesday Luncheon, November 18. The Future of Critical Materials.

Tuesday Afternoon, November 18. Emergency Training Readjustments: Supervisors' Training Responsibilities; Training Inspectors; Using Experienced Operators to Train; Apprenticeship Plans. **Getting Flexibility into Scheduling:** Inventory Control; Control Records; Importance of Defense Plant Loading Records.

Wednesday Morning, November 19. Materials Procurement Planning: Practical Priorities Experiences; Operating a Priorities Department; Materials Savings Through Simplification, Standardization, and Substitutions.

Wednesday Afternoon, November 19. Keeping the Wheels Turning (questions-and-answers session): Foremanship; Maintenance; Work Simplification; Labor Relations; Compensation; Cost Control.

Among the executives so far scheduled to address the meeting are: Kenneth B. Andersen, National Electrical Manufacturers Association; Arthur R. Gow, Seamless Rubber Company; H. J. Griffing, Sales Research Engineer, Norton Company; O. C. Heffner, The Hoover Company; Henry Holthusen, Kearny & Trecker Corporation; R. W. Owens, Motor Division, Westinghouse Electric & Manufacturing Company; Charles Reitell, Stevenson, Jordan & Harrison, Inc.; Roy F. Stiles, Stewart-Warner Corporation;



L. C. MORROW

Walter L. Tann, Farrel-Birmingham Company, Inc.; Alfred Vaksdal, Corning Glass Works; Archie Williams, Haydon Manufacturing Company, Inc.

H. W. Johnstone, Merck & Co., Inc.; Henry B. Martin, York Ice Machinery Corporation; J. Stanley Burrows, Floor Division, Armstrong Cork Company; A. I. Henderson, Division of Materials, OPM; W. A. Straw, Western Electric Company, Inc.; Walter A. Hoffman, RCA Manufacturing Company; Raymond S. Perry, The Ingersoll Milling Machine Company; Lyle R. Mercer, Aluminum Company of America; Earl F. Blank, Jones & Laughlin Steel Corp.; H. B. Maynard, Methods Engineering Council.

Office Management Sessions Attract Wide Attendance

Nearly 800 office management executives attended the AMA Office Management Conference held in New York last week. The Conference, reflecting as it did the most important trends in office management today, proved highly significant for all who attended. Of special interest were such subjects as: Organizational Problems Under Today's Conditions; Compensation of Office Workers; New Trends in Office Equipment; Maintenance of Office Personnel Standards; etc.

Insurance Buyers Plan Sessions in Cleveland, Dec. 9-10

All executives in the AMA who have insurance buying responsibilities will be interested in the sessions planned by the Association's Insurance Division for December 9 and 10 at the Statler Hotel, Cleveland, Ohio. The Conference will give special attention to the coverage on hazards that have been intensified by current industrial conditions.

Reginald B. Fleming, Insurance Manager, The Commonwealth & Southern Corporation and Vice President of the AMA Insurance Division, has announced that the whole first day of the Conference will be devoted to Case Studies in Loss Adjustment. The second day will cover Current Insurance Buying Problems such as: How the Small Insurance Buyer Can Make Full Use of Coverages Available to Him; An Educational Program for Industrial Fire Protection; and Making a Survey of a Plant to Check Needed Insurance. The afternoon of the second day of the Conference will be devoted to questions and answers on such problems as Bonding; Fire Insurance; and Casualty.

Business Outlook

(Continued from front page)

wiped out entirely. In most cases their agitation is unfounded, according to a study by *The Wall Street Journal*; while many companies will be reduced to a minimum level of operations, curtailment of non-defense output will stop short of annihilation. The SPAB is taking increased cognizance of the plight of civilian industries, and it is likely that systems of allocations will be extended in lieu of priorities and that measures will be taken to relieve conditions in industries and communities affected by shortages. "There is only one irreducible requirement which we have to meet, and it is the demand of our civilian population," remarked a defense official. "If the aluminum for the last 10,000 planes means the difference between civilian satisfaction and civilian unrest, then we are going to win this war with 40,000 planes instead of losing it at home with 50,000 planes."

The President's Scratch-Pad

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hundreds of new and improved ways of operation are being independently developed. These ideas should be regularly pooled for the use of management—and this is the job that AMA does—and the company's department heads ought to have their own "AMA" meetings to discuss mutual management problems.

Alvin E. Dodd

